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State	Finished
Completed on	Friday, 27 May 2022, 6:26 PM
Time taken	25 mins 37 secs
Marks	13.00/15.00
Grade	**17.33** out of 20.00 (**87**%)

Question **1**

Incorrect

Mark 0.00 out of 1.00

Consider the following statements:

- **Statement A:** Forwards and futures are useful because they provide positive or negative exposure to the underlying.
- **Statement B:** Futures contracts can be physically settled or cash settled.

Which of the statements given above is correct?

Select one:

- ○ Only statement A
- ○ Only statement B
- ○ Neither statement A nor B
- ◉ Both statement A and B ✖

Question **2**

Correct

Mark 1.00 out of 1.00

Consider the following statements:

- **Statement A:** Equity derivatives trade in the equity markets.
- **Statement B:** The short party to a forward contract has to allow the long party to choose the delivery date.

Which of the statements given above is correct?

Select one:

- ○ Both statement A and B
- ◉ Neither statement A nor B ✔
- ○ Only statement B
- ○ Only statement A

Question 3
Correct
Mark 1.00 out of 1.00

Which of the following is a definition of volatility?

Select one:
- (selected) The standard deviation of the return, measured with continuous compounding, in one year ✔
- The variance of the return, measured with continuous compounding, in one year
- The standard deviation of the stock price in one year
- The variance of the stock price in one year

Question 4
Correct
Mark 1.00 out of 1.00

Consider the following statements:

- **Statement A:** The holder of a put option can also be called the short party.
- **Statement B:** Long put options and short forward contracts both give negative exposure to the underlying.

Which of the statements given above is correct?

Select one:
- Both statement A and B
- (selected) Only statement B ✔
- Only statement A
- Neither statement A nor B

Question 5
Correct
Mark 1.00 out of 1.00

How does a call option differ from a forward contract?

Select one:
- A call option obligates the long party to always exercise their option.
- A call option allows the long party can choose the date of the agreed trade.
- A call option's agreed price tends to be more favorable for the long party.
- (selected) A call option allows the long party to choose whether or not to buy an asset. ✔

Question 6
Correct
Mark 1.00 out of 1.00

Consider the following statements:

- **Statement A:** Exchange-traded derivatives are more customizable than over-the-counter derivatives.
- **Statement B:** Larger entities tend to have lower credit risk.

Which of the statements given above is correct?

Select one:
- ( ) Neither statement A nor B
- (•) Only statement B ✔
- ( ) Only statement A
- ( ) Both statement A and B

Question 7
Correct
Mark 1.00 out of 1.00

If the volatility of a non-dividend-paying stock is 20% per annum and a risk-free rate is 5% per annum, which of the following is closest to the parameter p for a tree with a three-month time step?

Select one:
- (•) 0.54 ✔
- ( ) 0.58
- ( ) 0.50
- ( ) 0.62

Question 8
Correct
Mark 1.00 out of 1.00

When the Black-Scholes-Merton and binomial tree models are used to value an option on a non-dividend-paying stock, which of the following is true?

Select one:
- ( ) The binomial tree price converges to a price slightly below the Black-Scholes-Merton price as the number of time steps is increased
- ( ) Either A or B can be true
- ( ) The binomial tree price converges to a price slightly above the Black-Scholes-Merton price as the number of time steps is increased
- (•) The binomial tree price converges to the Black-Scholes-Merton price as the number of time steps is increased ✔

Question 9

Incorrect

Mark 0.00 out of 1.00

Consider the following statements:

- **Statement A:** Cash settled forward contracts are always exchange traded.
- **Statement B:** Forwards can be customized more so than futures.

Which of the statements given above is correct?

Select one:

- ○ Only statement A
- ○ Both statement A and B
- ◉ Neither statement A nor B ✖
- ○ Only statement B

Question 10

Correct

Mark 1.00 out of 1.00

Consider the following statements:

- **Statement A:** A hedging position is a position that lowers your overall market risk.
- **Statement B:** Futures are similar to forwards, but they don't exhibit credit risk.

Which of the statements given above is correct?

Select one:

- ○ Neither statement A nor B
- ○ Only statement B
- ○ Only statement A
- ◉ Both statement A and B ✔

Question 11

Correct

Mark 1.00 out of 1.00

A stock price is $100. Volatility is estimated to be 20% per year. What is an estimate of the standard deviation of the change in the stock price in one week?

Select one:

- ○ $0.38
- ○ $0.76
- ○ $3.02
- ◉ $2.77 ✔

Question 12
Correct
Mark 1.00 out of 1.00

Consider the following statements:

- **Statement A:** A speculative position is a position that lowers your overall market risk.
- **Statement B:** Derivatives always carry market risk.

Which of the statements given above is correct?

Select one:
- Only statement B ✔
- Both statement A and B
- Only statement A
- Neither statement A nor B

Question 13
Correct
Mark 1.00 out of 1.00

A company knows it will have to pay a certain amount of a foreign currency to one of its suppliers in the future. Which of the following is true?

Select one:
- A forward contract will always give a better outcome than an option
- An option will always give a better outcome than a forward contract
- An option can be used to lock in the exchange rate
- A forward contract can be used to lock in the exchange rate ✔

Question 14
Correct
Mark 1.00 out of 1.00

Consider the following statements:

- **Statement A:** Derivatives are primarily used for hedging and speculation.
- **Statement B:** Someone needing to trade an asset in the future is exposed to market risk.

Which of the statements given above is correct?

Select one:
- Both statement A and B ✔
- Only statement B
- Only statement A
- Neither statement A nor B

Question **15**

Correct

Mark 1.00 out of 1.00

Consider the following statements:

- **Statement A:** Speculating requires you to carry market risk.
- **Statement B:** One can usually sell or exit an exchange-traded derivative position by closing it out.

Which of the statements given above is correct?

Select one:

- Only statement A
- Neither statement A nor B
- Both statement A and B ✔
- Only statement B

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